U.S. Debt Ceiling & Credit Unions:
Talking Points and Context

As credit unions field potential questions about our nation's debt ceiling and prepare to offer assistance programs/products to support their members, the Leagues have provided explanations that can be used as talking points for frontline staff and member-facing materials.

What is the debt ceiling, and why does it matter?

- The debt ceiling is a limit that prevents the federal government from becoming more indebted. The debt ceiling must be raised by Congress.
- The first time Congress voted on a debt ceiling was in 1917. Since 1960, Congress has **voted on the debt ceiling 78 times**.
- The current debt ceiling of $31.4 trillion was reached on January 19th, 2023. Since then, the U.S. Treasury Department has been taking "extraordinary measures" to make payments. Some of these measures include borrowing from federal pension retirement plans.
- The Treasury Department is running out of "extraordinary measures" that can be taken, which means Congress needs to take action.
- The good news is, the United States does not solely rely on debt to pay its bills. Like most American households, our nation also has income to help pay bills.
- The majority of this income comes from tax revenues, with some additional income derived from a few other sources (including annual earnings from the Federal Reserve).
- Why does this all matter? There is not enough revenue to cover the cost of all federal programs and activities indefinitely.

What happens if the United States defaults on its debt?

- Depending on how long it takes to reach a compromise in Congress, some federal bills may go unpaid.
- If the United States defaults on its debts and bills go unpaid, it would be unprecedented. This has never happened in U.S. history.
- The U.S. Treasury Department would have the authority to determine which bills get paid first.

Will people receive their Social Security checks, food stamps, etc.? Will federal payroll employees get paid?

- It is unclear which bills would get paid first. U.S. Treasury Secretary Janet Yellen would not comment on the priority of bills in a recent interview.
- Millions of Americans depend on Social Security checks. From a political standpoint, nobody wants these bills to go unpaid.

If individuals don't receive checks from federal programs and federal employees go unpaid, will they all receive back-payments later?

- It is unclear because defaulting on U.S. debt would be unprecedented.
- When checks have been delayed due to a government shutdown in the past, furloughed employees did receive backpay.
- In 2019, the **Government Employee Fair Treatment Act** was signed into law. This law requires employees of federal agencies to receive backpay in the event of a government shutdown.
- However, a government shutdown is different from a debt ceiling crisis. The law does not necessarily include protections for employees who have checks withheld due to the debt ceiling being reached.
- Action is required by Congress to ensure employees receive backpay for a furlough due to a debt ceiling crisis.

How will the financial markets respond to a debt ceiling breach? According to the Credit Union National Association (CUNA):

- The debt ceiling could have severe consequences on the market. Some potential consequences include:
    - **Increased market volatility.** Breaching the debt ceiling would lead to financial market volatility and negatively impact investor confidence. Historical data suggests that stock/equity markets could decline by around 10 - 15 percent, and a longer default could wipe out approximately $10 trillion in equity market value.
    - **Substantially higher borrowing costs.** Failure to increase the debt ceiling could result in the federal government's inability to meet its financial obligations, leading to default. This would damage the U.S. government's credit rating and increase future borrowing costs. Even the perception of increased risk could result in investors demanding higher interest rates. Higher borrowing costs would affect not only the government but also businesses and consumers, leading to reduced investment and spending.

- **Plunging confidence.** Financial market volatility and higher borrowing costs would undermine investor, consumer, and business confidence both domestically and internationally. Previous debt ceiling crises resulted in significant declines in consumer confidence comparable to the aftermath of major events such as the 9/11 attacks and the collapse of Lehman Brothers Inc.

- **Large employment declines.** Studies suggest that a breach of the debt ceiling could lead to job losses. A shorter-term breach could possibly result in the loss of up to 1.5 million jobs, while a longer breach could potentially lead to 7.8 million job losses. These job losses would contribute to a rise in the national unemployment rate, potentially reaching 8 percent (it was 3.4 percent in April 2023).

- **A banking crisis.** Any prolonged debt ceiling fight could potentially lead to a banking crisis. Financial institutions with for-profit commercial bank charters and heavy reliance on uninsured deposits could face significant challenges. Increased interest rates and an economic decline would weaken bank investment portfolios and asset quality, potentially leading to a crisis. Certain banks, representing a significant portion of commercial bank assets, have a high percentage of uninsured deposits. However, credit unions continue to (on average) insure more deposits than banks.

How would a U.S. credit rating decrease impact credit unions?

- A similar debt ceiling standoff took place in 2011. The standoff created market uncertainty, and consequently the United States' debt rating decreased from AAA to AA+.
- This **memo written in 2011** from the National Credit Union Administration (NCUA) to federally insured credit unions describes the impact of the credit rating change. Here is a summary:

  - NCUA examiners did not change government risk rates.
  - NCUA Guaranteed Notes (NGN) were not impacted by the credit rating downgrade.
  - There were no increased costs to the corporate credit union liquidity guarantee program.
  - The credit rating for the United States' short-term debt maintained the higher A-1+ rating, which meant money market funds experienced little to no impact.

- Please keep in mind that trends from the past may be different from the present.

Are member deposits safe with credit unions if the United States defaults on its debt?

In California:

- Yes!
- A debt ceiling crisis will not impact access to the insurance fund that guarantees credit union deposits.
- **More than 90 percent of the $241 billion in member deposits at California credit unions is insured** by the National Credit Union Share Insurance Fund (NCUSIF), where members have never lost a penny throughout history. In addition, credit unions in the state have a robust **$51.4 billion in liquidity** to safely manage daily operations and financial settlements.

In Nevada:

- Yes!
- **100 percent of the $6.9 billion in member deposits at Nevada credit unions are insured**. In addition, credit unions in the state have a robust **$968 million in liquidity** to safely manage daily operations and financial settlements.

For both states, these are unprecedented times. Although access to the NCUSIF should not be impacted by a default on U.S. debts, it is possible that operations may be slowed.